

**AUDIT OF USAID/INDIA'S ROLE IN OBTAINING
AUDITS OF ITS CONTRACTS, GRANTS AND
COOPERATIVE AGREEMENTS**

**Report No. 5-386-98-001-P
October 10, 1997**

**Regional Inspector General
Bangkok**

October 10, 1997

MEMORANDUM

TO: USAID/India Mission Director, Linda E. Morse

FROM: RIG/Bangkok, Bruce M. Watts

SUBJECT: Audit of USAID/India's Role in Obtaining Audits of Its Contracts, Grants and Cooperative Agreements (Audit Report No. 5-386-98-001-P)

This memorandum is our report on the subject audit. In preparing the report, we considered your written comments on the draft report and included them as Appendix II. This report contains one recommendation. Based on your comments, a management decision to implement the recommendation has been made. Please notify the Office of Management Planning and Innovation, Bureau for Management (M/MPI) when actions to implement the recommendation have been completed.

I appreciate the cooperation and assistance provided to my staff during the audit.

Background

In recent years, USAID management has taken a more active role in using audit as a means to ensure that USAID funds provided to recipients under contracts, grants, and cooperative agreements are properly accounted for and used for the purposes intended in accordance with applicable laws and regulations. In April 1992, USAID established an audit management program to improve management control, direction and accountability over audit responsibilities. Specifically, USAID missions were required to:

establish a management control review committee (MCRC) to address all management control issues, including audit, at the mission level;

issue mission-specific operational guidance on audit management responsibilities and procedures;

designate an audit management officer to manage the overall audit program at the mission level;

establish an audit inventory database of all contracts, grants and cooperative agreements which may require audit; and

develop an annual audit plan to help assure complete audit coverage of all non-U.S. contracts, grants and cooperative agreements.

In May 1996, USAID consolidated its policies and procedures for planning, implementing and responding to financial audits of USAID-funded contractors, grantees and host government recipients in Chapter 591 of the Automated Directives System (ADS). These requirements and USAID responsibilities for ensuring that audits are performed are summarized below.

U.S. non-profit organizations receiving \$25,000 or more in USAID funds in any one year (under grants, cooperative agreements or contracts) shall have periodic audits performed in accordance with Office of Management and Budget Circular A-133. These audits will normally be performed annually, but must be performed no less frequently than every two years. The Office of Procurement in USAID/Washington is responsible for assuring that USAID funds provided to these organizations are audited.

U.S. for-profit firms receiving USAID funds under direct contracts, grants or cooperative agreements (or cost-reimbursable host country contracts or subcontracts over \$250,000) will have annual audits performed. The Office of Procurement in USAID/Washington has principal responsibility for assuring that USAID funds provided to these firms are audited.

Foreign for-profit and non-profit organizations receiving \$100,000 or more in direct Mission funds per year will have an audit performed. USAID overseas missions are responsible for assuring that these audits are done.

Foreign government agencies receiving \$25,000 or more in direct Mission funds per year will have an annual audit performed. USAID overseas missions are responsible for assuring that these audits are done.

During the period from January 1, 1993 through September 30, 1995, USAID/India disbursed \$81.1 million ¹ as shown below:

	(millions)
U.S. organizations (USAID/Washington audit responsibility)	\$29.1
Non-U.S. organizations (USAID/India audit responsibility)	51.1
International organizations (audit status dependent on grant terms, per ADS Chapter 308)	<u>.9</u>
Total	<u>\$ 81.1</u>

The table below shows the composition of the \$51.1 million disbursed to non-U.S. organizations by USAID/India during the period January 1, 1993 through September 30, 1995.

	(millions)
Subject to audit requirements (USAID/India responsibility)	\$33.4
Not subject to USAID audit requirements	7.8
Audits due after October 31, 1996	<u>9.9</u>
Total	<u>\$51.1</u>

¹ This figure excludes disbursements not typically audited such as leases, travel authorizations, participant training, personal service contracts, etc.

Details of the \$7.8 million of disbursements which were not subject to USAID audit requirements are as follows.

	(millions)
Disbursements below the dollar threshold established by USAID directives on financial audits	\$1.6
Projects fully funded prior to new audit provision ²	5.5
Direct Purchase of equipment by Mission	.3
Fixed Fee Contract Payments	<u>.4</u>
Total	<u>\$ 7.8</u>

Audit Objective

As part of a worldwide audit, the Office of the Regional Inspector General/Bangkok audited USAID/India's audit management program to answer the following objective : Has USAID/India carried out its role in obtaining audits of its contracts, grants and cooperative agreements?

Appendix I discusses in detail the audit scope and methodology.

² These projects were fully funded prior to May 1992 when State Cable 100508 added the new audit clause to the standard provisions. The new clause was effective for existing projects amended for incremental funding after May 1, 1992.

Audit Findings

Has USAID/India carried out its role in obtaining audits of its contracts, grants and cooperative agreements?

USAID/India has generally carried out its role in obtaining audit coverage for its contracts, grants and cooperating agreements. However, at the time of our audit 4 of 25 audits required as of October 31, 1996, had not been done. This matter is discussed below.

Recommendation No. 1: We recommend that USAID/India obtain audits of the \$8,166,649 disbursed to the State Innovations in Family Planning Services Agency and the Ministry of Health and Family Welfare during the fiscal years ending March 31, 1994 and March 31, 1995.

USAID/India has taken several steps to implement an effective audit management program. For example, the Mission has:

- issued a Mission Order to provide guidance to its personnel on audit planning, implementation and follow-up;

- established a Management Control Review Committee (MCRC) to play a lead role in monitoring the status of the Mission's audit program and to assure that its audit responsibilities are fully carried out;

- designated an audit management officer to coordinate and monitor the Mission's financial audit program and follow up on recipient-contracted audit recommendations;

- included required audit clauses in its grants, cooperative agreements and contracts and budgeted funds for most of its audits;

- maintained an accurate automated data base system to serve as an inventory of contracts, grants and cooperative agreements requiring audits and to track such audits; and

- prepared annual audit plans.

**Some Required Audits
Were Not Performed**

ADS Chapter 591 requires that audits be performed of foreign government entities receiving \$25,000 or more annually under direct USAID grants. It also requires that audits be performed of foreign for-profit and non-profit organizations receiving \$100,000 or more annually in direct USAID grants or contracts. USAID/India was responsible for obtaining audits for \$33.4 million of Mission disbursements to non-U.S. entities.³ As of October 31, 1996, a total of 25 audits should have been performed. As shown in the following table, all but four of these required audits were done:

	<i>Required</i>	<i>Actually Performed</i>	<i>Required But Not Performed</i>
Number of Audits			
Disbursements Covered	25	21	4
	\$33,458,529	\$25,291,880	\$8,166,649

The four audits not performed were for two foreign government entities, the State Innovations in Family Planning Services Agency and the Ministry of Health and Family Welfare, for the Indian fiscal years ending March 31, 1994 and March 31, 1995. These four audits were to be performed by the Comptroller and Auditor General of India.

USAID/India staff stated that audits for the two fiscal years of funds provided to the State Innovations in Family Planning Services Agency were not done because of miscommunications between Headquarters and a state office of the Comptroller and Auditor General of India concerning the need for performance audit work. According to a Mission official, the project funded through the Family Planning Services Agency is financed through a performance based disbursement system rather than the traditional cost reimbursement system. Therefore, performance audit work is required to meet the recipient contracted audit requirement. The

³ Some of the disbursements did not require audit, such as those for projects fully funded prior to May 1992 and those which did not exceed the dollar threshold triggering recipient contracted audits (see pages 3 and 4).

Mission official further stated that the Headquarters Office of the Comptroller and Auditor General of India in New Delhi agreed that performance audit work would be done. However, that agreement was not successfully communicated to the state office which was to actually do the work. The Mission official indicated that the performance audit work is being done by an accounting firm approved by the Office of the Regional Inspector General/Bangkok and that an audit report covering the fiscal years ending March 31, 1994, March 31, 1995, and March 31, 1996 is expected in October 1997.

According to Mission officials, audits of the Ministry of Health and Family Welfare (MHFW) for the fiscal years ending March 31, 1994 and March 31, 1995 were not done because of a misunderstanding concerning what was required and which Office of the Comptroller and Auditor General would perform the audit work. The MHFW acts as an intermediary for the pass-through of funds to sub-recipient private voluntary organizations. Payments are made to these organizations based on certified audited statements. Mission officials stated that the issues delaying start of the audits have been resolved and that audit work has started. The Mission is working with the Office of the Comptroller and Auditor General to ensure that the audit work covering the two fiscal years is completed.

Although audits for most of the contracts, grants, and cooperative agreements reviewed had been done, USAID/India should take action to ensure that audits for the periods cited in this report are completed. Without such audits, USAID/India lacks assurance that \$8,166,649 in USAID funds disbursed to the Innovations in Family Planning Services Agency and the Ministry of Health and Family Welfare during the fiscal years ending March 31, 1994, and March 31, 1995, were used for intended purposes.

Management Comments and Our Evaluation

Management concurred with the audit conclusion and recommendation and indicated that they were following up with the implementing agencies and the Office of the Comptroller and Auditor General of India to ensure that audits for the periods cited in this report are completed.

<p>SCOPE AND METHODOLOGY</p>

Scope

We conducted our audit in accordance with generally accepted government auditing standards.

The audit was conducted at the offices of USAID/India from February 11, 1997 through February 21, 1997. The audit scope covered whether USAID/India (1) provided adequate direction for its financial audit program, (2) included appropriate audit clauses and budgets in grants and cooperative agreements with overseas entities, (3) established an accurate audit universe, and (4) requested audits when required. The audit examined USAID/India's role in obtaining audit coverage of \$51.1 million disbursed to non-U.S. entities from January 1, 1993 through September 30, 1995. The audit considered financial audits due as of October 31, 1996.

The audit included an assessment of USAID/India's internal controls over the financial audit process and the foreign recipient-contracted audit program. The audit included USAID/India's awards under USAID Handbooks 3 and 13 and contracts with for-profit organizations in India. The audit did not cover local currencies generated under commodity import programs, sector assistance, cash transfers, payroll, participant training, or travel. We limited our conclusions to the items actually tested: that is, we did not attempt to project the results of our tests on the accuracy of the sampled data to data we did not test.

Methodology

We performed the following procedures in answering the audit question of whether USAID/India obtained the needed audit coverage of its overseas grantees and contractors:

An examination of whether appropriate audit clauses and funding for audits were included in grants, cooperative agreements, and contracts with overseas entities, including reviewing a sample of 12 grants, cooperative agreements, and contracts.

A determination of whether USAID/India issued guidance and established direction for financial audits, including reviewing (1) USAID/India Orders 430, 5005, and 5020 and (2) interviewing appropriate Mission officials.

A determination of whether the Mission established an audit inventory (database) and prepared audit plans, including (1) reviewing and testing the methodology for preparation of the audit inventory, (2) reviewing the justification for excluding certain contracts and grants, (3) verifying the accuracy of selected data entered into the audit inventory by comparing the data with source documents, and (4) examining USAID/India's audit plans.

An examination of whether USAID/India requested audits when required by USAID directives, including (1) comparing the audit inventory with audit reports on file in USAID/India to see if required audits were completed in a timely manner and (2) reviewing audit reports to see if they complied with generally accepted government auditing standards.

The disbursement amounts are based on unaudited data derived from USAID/India's Mission Accounting and Control System (MACS).

For the purposes of this audit, we interpreted USAID guidance requiring audits of recipients that receive \$100,000 or more per year to refer to the recipient's fiscal year. For all organizations in India, the fiscal year begins on April 1 and ends on March 31. In addition, we obtained written representations from management on key management assertions related to our audit objective

APPENDIX II



NEW DELHI, INDIA

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

August 8, 1997

MEMORANDUM

TO: RIG/Bangkok, Bruce M. Watts

FROM: USAID/India Director, Linda E. Morse

SUBJECT: Audit of USAID/India's Role in Obtaining Audits for Its Contracts, Grants, and Cooperative Agreements

Thank you for giving us this opportunity to review and comment on the draft report on the subject matter. We find the report factually correct and are pleased to note that USAID/India has generally complied with the audit provisions and taken several steps to implement an effective audit management program.

We accept the audit recommendations made in the report. We are continuing to follow up with the concerned implementing agencies and the Comptroller General of India to get the pending audits of IFPS and PVOH II projects completed as soon as possible. We are hopeful of getting these audit reports in the near future and will transmit them to you when they are received.

An audit representation Letter signed by me is attached.

Attachment: Representation Letter